Supreme Court, U.S.
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No. 98-1458

IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

KEN LUKER,

Petitioner,

v.

THE AKRO CORPORATION,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

Respondent The Akro Corporation ("Akro") objects to Petitioner Ken Luker's ("Luker") statement of the questions presented as they misleadingly suggest that Luker holds an ownership interest in the patent at issue in the action below. This suggestion is improper as both the District Court and the Federal Circuit found, and Luker's "questions presented" do not challenge, that Luker held neither legal nor equitable title to the patent. Moreover, while Luker's petition sets forth two separate "questions presented," the issues raised by the questions are identical, namely whether or not a party may sue for patent infringement even though they hold no ownership interest in the patent whatsoever. Accordingly, Akro restates the question presented by Luker's petition as follows:

(1) Did the courts below correctly dismiss the present patent infringement action for lack of subject matter jurisdiction upon finding that the party suing to recover monetary damages for the alleged patent infringement held neither legal nor equitable title to the patent-in-suit?

RULE 29.6 STATEMENT

Akro supplements Luker's listing of the parties to the proceeding by noting that The Akro Corporation is a wholly-owned subsidiary of Collins & Aikman Group, Inc. All of the common stock of Collins & Aikman Group, Inc. is owned by Collins & Aikman Holding Corp.

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Respondent The Akro Corporation ("Akro") respectfully opposes Petitioner Ken Luker's ("Luker") Petition for a Writ of Certiorari to review the December 14, 1998 judgment of the United States Court of Appeals for the Federal Circuit ("Federal Circuit"). In that judgment, the Federal Circuit affirmed, without opinion, the June 3, 1997 and March 30, 1998 decisions of the United States District Court for the Northern District of Ohio.

STATEMENT OF THE CASE

While Akro disagrees with certain of the characterizations set forth in Luker's Statement of the Case, Akro does not dispute that Akro filed a suit seeking declaratory judgments of patent invalidity and non-infringement against Luker in 1993 after Luker repeatedly threatened to sue Akro under U.S. Patent No. 4,871,602 ("the '602 patent"). After a bench trial in February of 1997, the District Court issued its June 3, 1997 opinion dismissing both Akro's declaratory judgment claims and Luker's counterclaim for patent infringement for lack of subject matter jurisdiction. The Court based this dismissal on its finding that Luker held neither legal nor equitable title to the '602 patent, and hence did not have standing to sue Akro for patent infringement.

Thereafter, Luker requested that the District Court reconsider its June 3, 1997 decision, and also requested in the alternative that the District Court add Designer Mat, Inc. ("Designer Mat") as a party to the suit and render a decision on the merits. The District Court denied this motion in an Order issued March 30, 1998. Luker appealed both the June 3, 1997 and March 30, 1998 rulings of the District Court to the Federal Circuit. After briefing and oral argument, the Federal Circuit entered a judgment on December 14, 1998 affirming, without opinion, the decisions of the District Court.

STATEMENT OF FACTS

The District Court dismissed the present action for lack of subject matter jurisdiction after determining under California Labor Code § 2860 that Luker held neither legal nor equitable title to the '602 patent. The factual background underlying the District Court's decision in this regard is as follows. The '602 patent is directed to an automobile floor mat which includes heavier carpeting in the "heel pad" area. At the time the floor mat claimed in the '602 patent was conceived and developed, Luker was the president and sole owner of Designer Mat, a company engaged in the manufacture and sale of automobile floor mats. (June 3, 1997 Opinion, ¶¶ 3-4, pp. 2a-3a).[1] In 1987 George Kennedy, Designer Mat's plant foreman, conceived and manufactured the automobile floor mat which is described and claimed in the '602 patent. (Trial Transcript, Luker Testimony, pp. A4089-A4090, A4117; Trial Transcript, Kennedy Testimony, pp. A4125-A4217). Mr. Kennedy developed this product at Designer Mat's manufacturing facility, during Designer Mat's regular business hours, using Designer Mat's equipment and supplies, and with the help of other Designer Mat employees. (June 3, 1997 Opinion, ¶ 6, pp. 4a; Trial Transcript, Luker Testimony, pp. A4091-A4092, A4114-A4116, A4119; Trial Transcript, Kennedy Testimony, pp. A4124-A4128). While Luker claims that he was also involved in the conception of the floor mat claimed in the '602 patent, Luker has admitted that one of his responsibilities at Designer Mat was to develop new products such as the claimed floor mat. (June 3, 1997

1. Citations to pages which include an "a" designation (*e.g.*, pp. 2a-3a) refer to pages in Appendix A to Luker's Petition for Writ of Certiorari. References to pages with an "A" designation (*e.g.*, pp. A4089-A4090) refer to pages in the Joint Appendix of the United States Court of Appeals for the Federal Circuit Appeal No. 97-1463.

Opinion, ¶¶ 4-5, pp. 3a-4a). Luker has also admitted that it was Mr. Kennedy, and not Luker, who set up the tufting equipment and manufactured the first samples of the floor mat claimed in the '602 patent. (Trial Transcript, Luker Testimony, pp. A4115-A4116, A4118; Trial Transcript, Kennedy Testimony, pp. A4124-A4127). Luker has also admitted that Mr. Kennedy did this pursuant to his responsibilities as an employee of Designer Mat, as Luker never employed Mr. Kennedy in a personal capacity. (Trial Transcript, Luker Testimony, pp. A4086-A4088, A4093-A4094; Trial Transcript, Kennedy Testimony, pp. A4122-A4123). Shortly after Mr. Kennedy finished testing the original samples of the claimed floor mat, Designer Mat switched 100% of its production capacity to the manufacture of Mr. Kennedy's new floor mat. (*See* Trial Transcript, Luker Testimony, pp. A4110A-A4110B).

Around the same time, Luker, in his capacity as president of Designer Mat, retained an attorney for purposes of patenting the floor mat which Mr. Kennedy had conceived and developed. While a patent application was ultimately prepared and filed, it was Designer Mat and an outside investor, as opposed to Luker, who paid the attorneys fees and other expenses associated with the application which ultimately matured into the '602 patent. (June 3, 1997 Opinion, ¶ 7, pp. 4a-5a). Luker never reported these payments as income on his federal or state tax returns, because at this time Luker was treating the patent application as an asset of Designer Mat. (*See* June 3, 1997 Opinion, ¶ 7, pp. 4a-5a).

Shortly thereafter, Luker ran into financial difficulties, and ultimately both Luker and Designer Mat filed for bankruptcy. (June 3, 1997 Opinion, ¶ 7, pp. 4a-5a). Consistent with Luker's treatment of the '602 patent up through that

point, Luker's patent attorneys filed a claim for their unpaid fees in the Designer Mat bankruptcy proceeding, but did not file a claim in Luker's personal bankruptcy proceeding. (*See* Bankruptcy Schedules, pp. A4024-A4058, A4029). Ultimately, the Designer Mat bankruptcy proceeding was concluded without the '602 patent being administered, as Luker never notified the bankruptcy trustee regarding the existence of the '602 patent. During the bankruptcy proceedings, the trustee administered Designer Mat's scheduled assets (*i.e.*, all assets but the '602 patent), and the bankruptcy was formally concluded in 1991. At this time Designer Mat no longer had any assets, employees, or a place of business, and Designer Mat had ceased all business operations. Designer Mat's creditors, who filed claims during that bankruptcy which in aggregate totaled over $800,000, received only a few thousand dollars from the trustee's sale of Designer Mat's assets. (*See* Bankruptcy Schedules, pp. A4024-A4058). Luker correctly notes in his petition that the creditors of Designer Mat have never asserted an interest in the '602 patent. (Luker's Petition, pp. 6, 8). However, as should be clear from above, the reason they have never asserted an interest is because Luker improperly concealed the patent from them during the bankruptcy proceedings.

Shortly thereafter, Mr. Kennedy filed an action against Luker seeking an order declaring that he, and not Luker, invented the floor mat claimed in the '602 patent. In this action, Mr. Kennedy further requested that the court compel Luker to assign the '602 patent to him. During this dispute, Luker took the position that Mr. Kennedy did not have any ownership interest in the '602 patent because his contributions to the conception and development of the claimed floor mat were made as part of his job, and hence his employer, Designer Mat, owned the patent. In the words of Luker's attorney:

> Under the common law, an invention by an engineer or other such person working in a technical capacity would clearly belong to the employer if the invention related to the employer's business. . . . ***[I]t seems clear that the invention belongs to the employer***, even if George [Kennedy] were considered to be a joint inventor. While the business was small and George [Kennedy] was not a sole or joint inventor hired primarily to invent, he was employed in a technical or supervisory capacity. . . . Further, this work was done on the employer's equipment and materials, and George [Kennedy] was paid for his services as an employee in connection with such work. Also very important is the fact that the product was clearly in your business line.

(Emphasis added). (Luker Opinion Letter, p. A4019). Later during this dispute, Luker's attorneys also expressly considered the effect of California Labor Code § 2860 on the ownership of the '602 patent. In the words of Luker's attorney:

> [M]y February 9th letter discusses invention and ownership and states that in the absence of an agreement between an employer and an employee the common law applies. This is true in the absence of a statute. California has, however, passed a statute in that area namely Section 2860 of the Labor Code, a copy of which is enclosed. That section ***seems favorable to your position***.

(Emphasis added). (Luker Opinion Letter, p. A4020). Ultimately, Luker and Kennedy settled their dispute, after Mr. Kennedy suffered a massive heart attack and was no longer able to prosecute his lawsuit against Luker.

Based on the above-stated facts, the District Court concluded that Luker acquired the '602 patent by virtue of his employment with Designer Mat. Accordingly, the court found, consistent with the opinion of Luker's attorney, that pursuant to California Labor Code § 2860, the '602 patent was owned by Designer Mat, and not Luker.

SUMMARY OF ARGUMENT

Luker's Petition for Writ of Certiorari should be denied because Luker has failed to show that "special and important reasons" exist which would justify review of the District Court's unremarkable application of the well-established authorities relating to standing and subject matter jurisdiction. Luker's petition should also be denied because it is based solely on arguments which Luker has waived by non-presentation during his appeal to the Federal Circuit. More importantly, the "relief" which Luker seeks is contrary to standing requirement set forth in the United States Constitution and the decisions of this Court, as Luker is seeking to sue on a patent in which he has no ownership interest. In any event, Luker's petition never even acknowledges, let alone challenges, the numerous constitutional, statutory and case law authorities which directly rebut Luker's contention that "the issue of patent validity can be resolved without the patent owner as a party to the suit." (Luker's Petition, p. 9). As such, it is respectfully submitted that Luker's present petition should be denied as it neither demonstrates that an error was committed below or that review by this Court is warranted.

REASONS FOR DENYING THE WRIT

I.

LUKER'S PETITION FAILS TO IDENTIFY ANY "SPECIAL AND IMPORTANT REASONS" WHICH WOULD WARRANT REVIEW BY THIS COURT

As an initial matter, Luker's petition should be denied because Luker has failed to meet the threshold requirements which would justify review of the decision below by this Court. Specifically, pursuant to S. Ct. R. 10.1(a), Luker must demonstrate that "special and important reasons" exist which justify review of the Federal Circuit's December 14, 1998 decision in this matter. Luker has not and cannot make any such showing, as the decision below is simply an unexceptional application of the standing requirement set forth in Article III of the United States Constitution. The absence of any "special" or "important" reasons for review is made readily apparent by the fact that Luker's petition never addresses, or even mentions, the Article III standing requirement which forms the basis for the decision below, but instead contends that review is warranted because the decisions of the Federal Circuit are allegedly "unclear as to whether the issue of patent validity can be resolved without the patent owner as a party to the suit." (Luker's Petition, p. 9). Thus, even were Luker's contention in this regard true, which it is not, there would be absolutely no reason to review the decision below, as Luker has neither challenged, nor shown why, the standing requirement of Article III would not apply in the present case. Accordingly, Akro respectfully submits that Luker's petition should be denied as he has failed to meet the threshold requirements of S. Ct. R. 10.1(a).

II.

LUKER'S PETITION IS IMPROPERLY BASED ON ARGUMENTS WHICH LUKER FAILED TO RAISE ON HIS APPEAL TO THE FEDERAL CIRCUIT

Luker's Petition for a Writ of Certiorari is equally defective because it is based on "questions presented" which Luker failed to raise during his appeal to the Federal Circuit. Specifically, in appealing the finding of the District Court that Luker held neither legal nor equitable title to U.S. Patent No. 4,871,602 ("the '602 patent"), Luker argued (i) that under California law Luker held legal title to the '602 patent and; (ii) that the right to sue for patent infringement damages belongs to the holder of legal title to a patent, and hence Akro could not raise the equitable interests of Designer Mat in the '602 patent as a defense. On the present petition, however, Luker no longer contests the District Court's finding that Designer Mat held both legal and equitable title to the '602 patent, but instead argues that once the questions of patent validity and infringement have been put before a court, that court must rule on those issues, even if the court determines that the party to the action who purportedly owns the patent in fact holds no interest in the patent whatsoever. Accordingly, Akro respectfully submits that Luker waived this argument by non-presentation during his appeal to the Federal Circuit, thus providing an independent grounds for denying Luker's petition.

III.

THE COURTS BELOW PROPERLY DISMISSED THE PRESENT PATENT INFRINGEMENT ACTION UPON DETERMINING THAT LUKER HELD NEITHER LEGAL NOR EQUITABLE TITLE TO THE '602 PATENT

A. The District Court did not have Jurisdiction to Adjudicate the '602 Patent Where the Owner of the Patent was Not a Party to the Action

In any event, Luker's petition is equally defective because it seeks a result which is contrary to both the United States Constitution and the decisions of this Court. Specifically, as noted above, both of the "questions presented" set forth in Luker's petition ask this Court to rule that even where a District Court determines that the owner of a patent is ***not*** a party to an action for patent infringement, the court is ***obligated*** to make rulings as to whether or not the patent is valid and/or infringed. However, Luker's request is directly contrary to Article III of the United States Constitution, as Article III has been interpreted by this Court to limit the jurisdiction of the federal courts to actions where the parties to the litigation have standing to raise the asserted claims. *Allen v. Wright*, 468 U.S. 737, 750 (U.S. 1984). To have such standing, this Court has held that the claimant must generally allege that they have personally been injured by actions that are fairly traceable to the defendant's unlawful conduct. *Allen v. Wright*, 468 U.S. 737, 751 (U.S. 1984). Accordingly, Article III imposes a "general prohibition on a litigant's raising another person's legal rights." *Allen v. Wright*, 468 U.S. 737, 751 (U.S. 1984). Thus, the "relief" requested by Luker is directly contrary to this Court's decisions under Article III of the Constitution.

Moreover, with respect to actions for patent infringement, this Court has clearly held that it is the holder of legal title to the patent, during the time of the alleged infringement, who has standing to sue for relief. *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 40-41 (1923). The Federal Circuit follows the authority of this Court in this regard, as most recently stated in *Arachnid, Inc. v. Merit Ind., Inc.*, 939 F.2d 1574, 1579 (Fed. Cir. 1991). In the present case, the District Court expressly found that Designer Mat, and not Luker, held legal (as well as equitable) title to the '602 patent. As such, it is clear that Luker did not have standing to sue Akro for infringement of the '602 patent, and hence the District Court properly dismissed the action for lack of standing.

Significantly, Luker's petition to this Court does not even mention the standing requirements of Article III which form the basis for the decision below. Instead, Luker merely cites to a line of cases which hold that patent infringement defendants may not raise the ***equitable rights*** of third party in a patent as a defense in a patent infringement suit. What Luker apparently fails to appreciate is that the cases he cites are completely consistent with, and in fact follow, the *Crown Die* and *Arachnid* decisions cited above, as in all of these cases it is only the holder of ***legal title*** to the patent who had standing to sue for patent infringement. Thus, as applied to the present case, it is clear that the cases cited by Luker actually support the decision of the District Court, as they compel dismissal of the action where, as here, the legal owner of the patent is not a party to the litigation.

B. The Decisions Cited by Luker Do Not Hold that Courts Can Adjudicate Patent Validity and Infringement without the Patent Owner as a Party to the Action

As noted above, Luker has not seriously challenged the finding by the courts below that pursuant to Section 2860 of the California Labor Code, Designer Mat holds both legal and equitable title to the '602 patent. Instead, Luker argues that the decisions of the Federal Circuit are "unclear as to whether the issue of patent validity can be resolved without the patent owner as a party to the suit." (Luker Petition, p. 9). In other words, on his petition to this Court, Luker is arguing that the District Court should be compelled to issue a ruling on the validity of the '602 patent and Akro's alleged infringement thereof, even though the owner of all right and title to the '602 patent, Designer Mat, was not a party to the action.[2] Presumably Luker is also arguing that he should be allowed to recover the monetary damages (for Akro's alleged patent infringement) he has claimed, even though he does not own the patent on which he is suing.

In support of this argument, Luker cites to decisions of the Court of Claims, the U.S. District Court for the District of Delaware, and the First, Sixth and Seventh Circuit Court of Appeals, which Luker asserts hold that the federal courts can and should adjudicate patent validity and infringement even if the owner of the patent is not a party to the suit. (Luker's Petition, pp. 9, 11 and 15-16). However, Akro

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2. Luker never addresses his position on whether or not Designer Mat should be bound by the decision relating to the validity or infringement of the '602 patent which he seeks to have this Court force the District Court to make.

respectfully submits that none of the cases cited by Luker stands for this proposition. Instead, these cases at most hold that where a party to an action for patent infringement ***holds legal title to the patent***, the accused infringer cannot raise the ***equitable rights*** of another in the patent as a defense. Clearly these cases are inapposite here, as it is undisputed that Luker holds neither legal nor equitable title to the '602 patent. The authorities that are applicable are the decision of this Court in *Crown Die* and the Federal Circuit in *Arachnid*, which expressly hold that where, as here, the holder of legal title to the patent is not a party to the suit, the court does not have subject matter jurisdiction to adjudicate any claims relating to the infringement or invalidity of the patent.

IV.

THE COURTS BELOW CORRECTLY DETERMINED THAT LUKER HOLDS NEITHER LEGAL NOR EQUITABLE TITLE TO THE '602 PATENT

In his petition to this Court, Luker does not seriously contest the finding of the courts below that Designer Mat, and not Luker, holds both legal and equitable title to the '602 patent. However, in passing Luker's petition does state, without support or explanation, that this finding was erroneous. (Luker's Petition, pp. 9-10). Pursuant to S. Ct. R. 14.1(a), Akro respectfully submits that this Court should not even consider Luker's unsupported assertion regarding the judgment below, as this alleged grounds of "error" was not set out in Luker's "questions presented" or fairly included therein as required by this Court's rule. In any event, the record below makes clear that the District Court correctly concluded that Designer Mat, as opposed to Luker, holds both legal and equitable title to the '602 patent. For the Court's

convenience, the facts and authorities which compel this conclusion are briefly reiterated below.

As noted above, the District Court's finding that Luker held neither legal nor equitable title to the '602 patent was based on California Labor Code § 2860. Pursuant to this statute, California employers are entitled to

> [e]verything which an ***employee acquires by virture of his employment*** . . . whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment.

As recognized by the courts below, Section 2860, by operation of law, vested both legal and equitable title to the '602 patent in Designer Mat, as the undisputed factual record (which is set forth above) clearly demonstrated that Luker acquired the '602 patent solely by virtue of his employment with Designer Mat. This finding is consistent with a line of Federal Circuit decisions holding that statutory and/or contractual provisions may operate to vest title to a patent in a person other than the inventor. *See Heinemann v. United States*, 796 F.2d 451 (Fed. Cir. 1986) (executive order acted by operation of law to vest title to patents on inventions by United States government employees in the government); *Filmtec v. Allied Signal*, 939 F.2d 1568 (Fed. Cir. 1991) (government contract transferred to the U.S. government, by operation of law, full title to inventions developed by employees of the contractor); *Filmtec v. Hydranautics*, 982 F.2d 1546 (Fed. Cir. 1992) (federal statute acted by operation of law to vest title to patents on inventions by employees of a government contractor to the U.S. government). Once the District Court made this determination, it was compelled to dismiss the present action.

V.

LUKER'S PETITION INCLUDES NUMEROUS MISCHARACTERIZATIONS OF LAW AND FACT

Pursuant to S. Ct. R. 15.2, Akro would also call to the Court's attention a number of additional mischaracterizations of fact and law which are included in Luker's petition. While these misstatements generally do not bear on either of the "questions presented" set forth in Luker's petition, Akro calls them to the Court's attention in the event Luker attempts in reply to modify his position on the present petition.

The first such mischaracterization is Luker's statement, which is made without support or explanation, that "California Labor Code § 2860 appears to have been enacted to interdict theft of an employer's trade secrets." (Luker's Petition, p. 10). Presumably Luker's statement in this regard is meant to imply that the courts below erred in applying this statute in a patent case. However, any such implication is directly contradicted by decisions of the California courts, and by the express language of the statute which is broadly worded to encompass "everything . . . acquire[d] by virtue of [the] employment," and which also expressly applies to things acquired "after the expiration of the term of [the] employment," which obviously cannot be referring to trade secrets. *See* Cal. Labor Code § 2860; *Williams v. Weisser*, 273 Cal. App. 726, 729 (Cal. App. 1969) ("section [2860] has been applied principally, though not exclusively, to unfair competition"). Thus, contrary to Luker's unsupported assertion, it is clear that the courts below did not err in applying Section 2860 in a case involving intellectual property other than trade secrets.

Luker's next misstatement is his contention that the trial court allegedly further erred in that it applied Section 2860 without first determining whether Luker was employed in an inventive capacity by Designer Mat. (Luker's Petition, p. 10). This assertion, however, simply misrepresents the record, as the District Court expressly found that one of Luker's responsibilities as an employee of Designer Mat was "the design and development of new products." (June 3, 1997 Order, ¶ 16, p. 12a; March 30, 1998 Opinion, p. 19a).

Luker also asserts in his petition, without support, that "the '602 patent application was listed on Luker's personal bankruptcy schedule." (Luker's Petition, p. 8). Although Akro believes that this assertion is irrelevant to any issue in this case, Akro would advise the Court that there is no evidence in the record below which would support such an assertion.

Luker also mischaracterizes Akro's position before the District Court and the Federal Circuit on the ownership issue. (*See* Luker's Petition, pp. 11-14). Specifically, what Akro argued, and what both the District Court and Federal Circuit found, was that Cal. Labor Code § 2860 acted, by operation of law, to vest both legal and equitable title to the '602 patent in Designer Mat. In support of this argument, Akro relied on the express language of Section 2860, as well as the decisions of the Federal Circuit, cited above, in *Heinemann v. U.S.*; *Filmtec v. Allied Signal*; and *Filmtec v. Hydranautics*, which each indicate that statutes may operate to vest title to a patent in another by operation of law. Akro then argued that under the *Arachnid* decision the District Court did not have jurisdiction to hear the present case, as Luker did not hold legal title to the '602 patent and hence did not have standing to sue for infringement of that patent.

Finally, Luker also argues that Akro was perfectly willing to have Luker defend the validity of the patent, and that it was only once Luker counterclaimed for patent infringement that Akro raised its standing defense. (Luker's Petition, p. 18). However, what Luker fails to tell this Court is that it was Luker, not Designer Mat, who threatened Akro with suit, and that Akro did not even learn of Designer Mat's interest in the '602 patent until late in the discovery period. Once Akro learned that Luker did not hold an ownership interest in the '602 patent, Akro sought to have the present action dismissed, as the only party who had threatened Akro did not have standing to sue Akro under the '602 patent. Thus it should be clear that Akro has always maintained a consistent position on the standing issue in this case, and the only reason Akro originally sued Luker was because Luker was falsely asserting that he, and not Designer Mat, owned the '602 patent.

CONCLUSION

For the foregoing reasons, Akro respectfully submits that Luker's petition should be denied.

Respectfully submitted,

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